the stuff of life

CPAC (CARE) HOLDINGS LTD.

ANNUAL REPORT 2004

Growing numbers of healthy, vibrant older people want to retain their independence and the ability to pursue their own lifestyle.

And they want to live in safe and secure environments where they can mix with their peers in a community setting.

late morning

OPPORTUNITIES FOR DEVELOPMENT

1. Building and taking advantage of evolving private-public partnerships and affinity groups, especially with respect to "Aging-in-Place" Communities.
2. Developing new built-to-purpose projects offering a full continuum of care in underserved markets.
3. Converting existing "functionally obsolete" properties in strong market areas to full-service retirement communities offering a continuum-of-care.
4. Developing a strong sense of community amongst our residents, our co-workers and staff and our stakeholders.

CPAC has come to realize the growing importance of "community" as a part of a full range of lifestyle options and components of seniors housing.

We are driven to improve in some vital way the lives of our residents present and future on a long-term basis and the quality of those communities to which we are committed.

TO OUR SHAREHOLDERS

A SHARED VISION

"Care" based on community is the embodiment of CPAC's statement of purpose. We are constantly striving to realize that purpose while endeavouring at all times to serve our residents, our shareholders, our communities — both "proprietary" and "extended" — our colleagues and co-workers, to the best of our abilities.

While working to the standards set by the actionable philosophy that guides us may at times seem an onerous undertaking, I am proud to report to you that the results of fiscal 2003 have again proven our vision to be a vigorous, a practical and a successful one, one that has served to meet and in many cases surpass the — on the surface — disparate requirements and expectations of each of these groups with which we work.

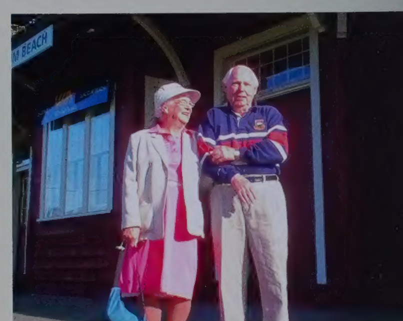
As with many things in life, seeing past the surface requires diligence, perseverance and an understanding, that once attained allows an ongoing pattern of sustainable and organic growth.

We at CPAC have always felt that that we have an objective beyond our significant everyday resolve to earn a just profit and create value in the Company for our Shareholders and ourselves. We are driven to improve in some vital way the lives of our residents present and future on a long-term basis and the quality of those communities to which we are committed.

Seniors of today want to stay involved in the world around them.

Choosing to live in a CPAC Community means that you know you can continue to live in the same community no matter what happens to your health as you age.

noon



A Sustainable Model

The demand for retirement housing is rising. An improved quality of life and better healthcare techniques mean that there is an increasing population of healthy, vibrant older people in society. Accordingly, growing numbers of those people want to retain their independence and the ability to pursue their own lifestyle. And they want to live in safe and secure environments where they can mix with their peers in a community setting.

We understand that the seniors of today want to stay involved in the world around them. That's why we've chosen to develop, build, and operate true retirement "communities" that offer activities, services, programs and a continuum of care that promote health, wellness, and vitality.

CPAC's Communities provide a continuum of care that includes housing, services, and health care. Choosing to live in a CPAC community means that you know you can continue to live in the same community no matter what happens to your health as you age.

CPAC's model of Aging-in-Place has proven itself not only as a standout and profitable method of operational efficiency, but as an exemplar of housing choices for seniors based on the ability to choose the way a person wants to live, a choice that may be made based on ability not age.

Each community offers lots of amenities, as well as wide range of regional activities and services — shopping, golf, theatres, museums, galleries, educational opportunities, classic West Coast gardens, walking trails and landscapes.

An improved quality of life and better healthcare techniques mean that there is an increasing population of healthy, vibrant older people in society. Accordingly, growing numbers of those people want to retain their independence and the ability to pursue their own lifestyle.

uccessful Partnerships

'he success of CPAC's Aging-in-Place community oncept owes a great deal to a firm framework of lose and successful partnerships established by ne Company with local Health Authorities and overnmental agencies, specialist care providers, ndividuals, Healthcare and community rganisations.

We're appreciative of the relationships we've forged and look forward to continuing to work closely with each of these groups — collectively and individually — as we move strongly into the future.

We've forged a significant "new" alliance in fiscal 2003, one that will facilitate the development of new projects to meet the market demand for our services.

Having received a very positive response from the Qualicum Township region, we're pleased to have engaged in a partnership with Mancal Lifestyles Inc. to undertake the development and operation of a new retirement community on Vancouver Island, "The Gardens at Qualicum Beach."

Following our mandate, "The Gardens" is intended to be an Aging-in-Place Community comprised of independent living condominiums, rental suites, assisted living and licensed care suites with an approximate total of 225 suites.

This new development is expected to lead the way for purposeful expansion to a number of our existing facilities in the future.

What's Next...

CPAC are true retirement "communities" that offer activities, services, programs and a continuum of care that promote health, wellness, and vitality.

As we grow we will continue to bring the fullest range of lifestyle options to our new communities.

early afternoon

We are proud of the fact that CPAC Communities are places filled with spirit and vigour.

Our communities are places that offer residents and staff the ability to do more. To learn more. To be more. And share their support, experiences and enthusiasm for living with each other and the greater community at large.

We are proud of the fact that we are creating sustainable solutions and communities now and into the future, and that in doing so we are creating value for our Company and our Shareholders.

We are thankful for the support and encouragement we are given by our stakeholders, and for the ability that it provides to allow us to confidently build on our successes.

Through positive positioning and growth of our Company and our Communities — in both the industry and the market — CPAC's leadership is benefiting not only us but also our aging society as a whole.

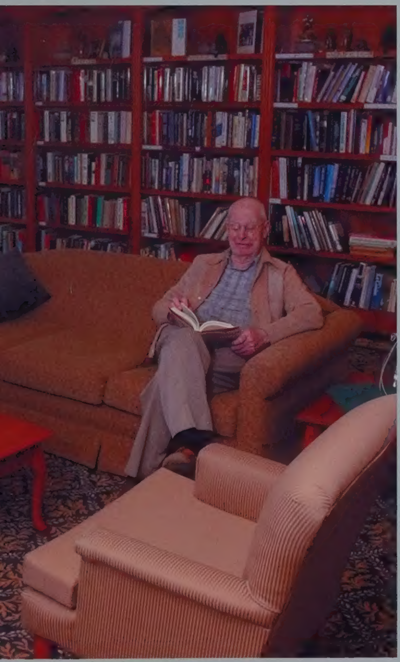
CPAC is committed to working to deliver to you, our stakeholders, a quality "product" which is successfully evolving to anticipate societal and market conditions through education, knowledge and the most outstanding service that we are able to provide.

We'd like to thank you for the contributions you have made to our growing success, and for working with us to develop and operate communities that for many have simply become... home.

Mr. Don Ho
President and Chief Executive Officer
CPAC (Care) Holdings Ltd.

Views of magnificent mountains; the Pacific Ocean virtually on your doorstep; well-designed, elegant light-filled apartments and suites for gracious living.

CPAC is committed to providing today's active, vital senior with the choices and levels of personalized services and care they require to maintain independence for as long as is appropriate for their individual circumstances.



ACTIVE AGING

Reform Begins at Home

Speaking globally, the number of older adults will exceed the number of children by the year 2030.

This rapid aging will see the number of people over 60 years of age triple by 2050 to nearly 2 billion worldwide.

What does this mean to our definitions of "Aging" and "Care" for older people?

In years past, for the most part, "old-age homes" were established for those elderly who were "poor" and had no family to look after them; such homes further isolated the elderly from society.

Hand-in-hand with better health and an increase in economic power the attitudes toward the aging in North America have long been evolving.

Older people are freer to take on new challenges — now more than at any time in history, because there are more services and products geared specifically for them. Along with increasing numbers, people are planning for retirement much earlier than previous generations.

Recognition of the benefits of a continuum of care and the introduction of actionable and effective models of community care such as CPAC's Aging-in-Place operational mandate has created a demand for a different kind of retirement housing and care provision.

CPAC is committed to innovative social and recreational activities and programs based on direct consultation with the members — residents, caregivers, family members and professionals — who live and work in each community.

late afternoon

CPAC was among the first to identify the need for a non-institutional, community-based alternative and dedicate itself to not only repurposing existing buildings and developing communities within those renewed structures, but to creating, developing and purposefully building complete communities from the ground up, supporting the aging individual's desire for independence, choice and privacy.

As a pioneer of the operational concept of Aging-in-Place, CPAC has always been diligent in seeking out and incorporating opinions and suggestions from not only residents — and their families — staff and the health care community, but from the larger "neighbourhoods" in which CPAC's Communities are located.

Foremost amongst requirements is that:

- Each community is designed with active aging and independence in mind
- The need for privacy in balance with supportive services is recognised
- The communal environment is safe, welcoming and non-institutional
- Each community offers a sustained and improved quality of life
- The care provided is flexible and designed to meet individual requirements.

We provide true independence based on the availability of multiple supportive levels of care, without the uncertainty of wondering where you will live.

Our residents and their families demand maintenance-free living with homes and communities that satisfy their diverse needs.

We are proud of the fact that CPAC communities are places filled with spirit and vigour. Our communities are places that offer residents and staff the ability to do more. To learn more. To be more.

HE CHANGING FACE OF COMMUNITY

's clear how the concepts of "caring" for the lderly have changed in the last 50 years. CPAC's andate demands that we look ahead to future emands.

How will the structure of an aging society iffer from today? What are the challenges ssociated with those changes? Have current rojections about a "Retirement Revolution" een over or understated?

Identifying changes in societal and demographic tructure is not only a matter of governmental or cademic interest. Both the "retirement" industry nd the general public are very interested in the implications of these changes. Through it's leading participation in the British Columbia Retirement Communities Association (BCRCA) — and similar organizations worldwide — CPAC is in a position to not only benefit from cutting-edge research in the field but to serve as an arbiter and lobbyist for positive change.

Even now with society's changes in its perception of aging, we all too often focus on the negative aspects of population aging.

The creation and development of significant lifestyle options such as CPAC's Communities for seniors is clearly seen to be a positive rather than a negative change, one that not only reflects society's changing norms but, more fundamentally, the opening up of options to seniors that were previously unavailable. Options which make living "independently" to a much greater age than ever before a distinct possibility for a growing number of people.

The places we choose to call home as we grow older may in fact be quite different from where and how we lived at an earlier age.

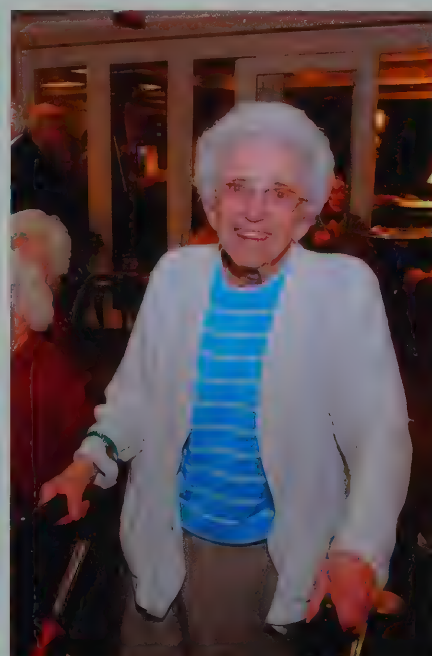
The places we choose to call home as we grow older may in fact be quite different from where and how we lived at an earlier age.

evening

While change has appeal, what likely remains the same is to feel safe, to feel secure, the desire for a sense of community; congenial companionship, the ability to count on support to live your life to the fullest no matter what your circumstance.

To a large part that's what independence and happiness at any stage of life is based on. That's the stuff of life.

While change has appeal, what likely remains the same is to feel safe, to feel secure, the desire for a sense of community; congenial companionship, the ability to count on support to live your life to the fullest no matter what your circumstance.



THE PROPERTIES

Changing the Design — Living with Ease

For more than 10 years CPAC has been developing, building and operating safe, comfortable Aging-in-Place communities where people can live their lives according to their ability rather than their age.

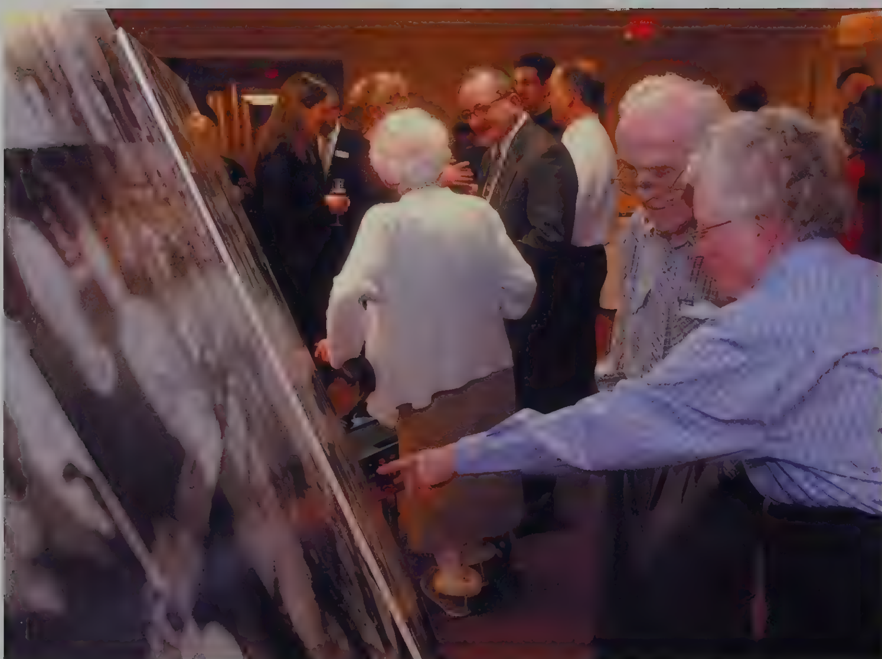
A range of recent research has indicated steady growth in the number of people interested in active adult communities and looking to relocate for retirement in the coming years. The first wave of baby-boomers is approaching retirement age in large numbers, and it seems that they have a very clear vision of about where and how they want to live as they get older.

CPAC is proud of its proven Communities today and our ability to anticipate coming trends based on market knowledge as we grow, permitting us to be ready with new communities that fit the wants and needs of this group when they are ready to move.

While not diverting resources from the market-leading Aging-in Place focus of our operational mandate, CPAC has come to realize the growing importance of "community" as a part of a full range of lifestyle options and components of seniors housing.

What many people are looking for in this "new breed" of active adult community resembles a return to a slower-paced life, perhaps even with the close-knit "friends and neighbours" and supportive

CPAC recognizes and supports [illegible] live life to the fullest no matter what their age.



feeling of a small town — although one with easy access to all the amenities they've grown accustomed to enjoying.

In listening to our residents and their families, and analysing the responses to our regular surveys of those nearing retirement and older seniors, it is becoming increasingly obvious that their quest to live life to the fullest no matter what their age, and their demand for maintenance-free living with homes and communities that satisfy their diverse needs, is becoming a significant market driver.

In the not so distant past, most of the general public's attention on seniors housing has been centred on "frail and vulnerable" elders, and a perceived decline in their ability to live independently.

With better health and economic freedom than at any other time in recent history, "empty nesters," pre-retirees and active seniors have the "clout" to be very discriminating customers.

CPAC's proven unique combination of exceptional housing and lifestyle options providing a stable, comfortable base for active aging is why adults of a wide range of ages, interests and lifestyle have come to live in, enjoy, and call our communities home.

Our upscale and affordable portfolio of properties consists of a diverse array of active adult

Adults of a wide
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communities
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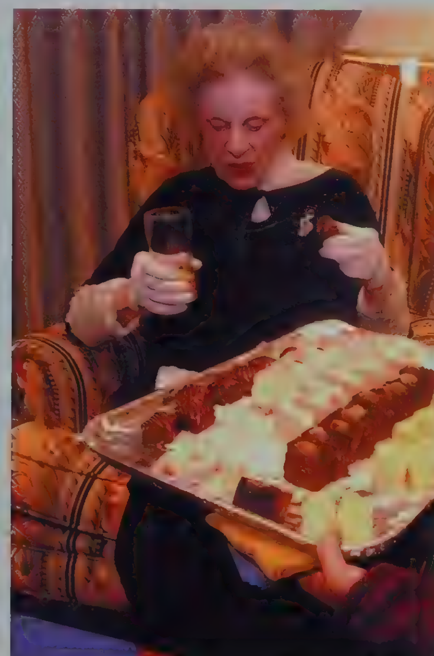
What many people are looking for in this "new breed" of active adult community resembles a return to a slower-paced life, perhaps even with the close-knit "friends and neighbours" and supportive feeling of a small town.



communities combined with comprehensive supportive/assisted living and continuing-care retirement components.

CPAC is committed to the continued development and implementation of innovative community-based and voluntary participation "planned" social and recreational activities and programs based on direct consultation with the members — residents, caregivers, family members and professionals — who live and work in each community.

Each of CPAC's 6 Communities offer their own subtly different take on the CPAC operational concept, based on its location and its residents needs.

CPAC has chosen the locations for its communities carefully, each of them nestled into the "Mediterranean" climate, diversity and physical beauty of Vancouver Island or the heart of BC's Lower Mainland, both areas long considered to be among Canada's most desirable retirement destinations.

And each community has a lot to offer in the way of amenities — community-based, as well as wide range of regional activities and services — shopping, support services, golf, theatres, community and fitness centres, museums, galleries, educational opportunities, classic West Coast gardens, walking trails and landscapes....

Views of magnificent mountains; the Pacific Ocean virtually on your doorstep; well-designed, elegant light-filled apartments and suites for gracious living, sumptuous meals in our dining rooms and bistros — or "catered" in the comfort and privacy of your own home.

As we grow we will continue to bring the fullest range of lifestyle options to our new communities and expansions planned for development at the Residences at Langley Gardens and The Gardens at Qualicum Beach.

CPAC's Communities offering Aging-in-Place lifestyle options are designed to offer active seniors an independent lifestyle and a "real" home from which to enjoy it, regardless of future health requirements

We provide true independence based on the availability of multiple supportive levels of care, without the uncertainty of wondering where you will live.

At CPAC, you may finally be at home.

Management's Discussion and Analysis

March 31, 2004

The following discussion and analysis must be read in conjunction with the Consolidated Financial Statements and the Notes thereto.

Overview

CPAC (Care) Holdings Ltd. is engaged in the business of developing, acquiring, owning and operating retirement communities and senior care facilities. In the past few years, the Company expanded its operations considerably through acquiring existing senior care facilities and developing new retirement communities. The Company currently owns and operates six retirement facilities located in the Province of British Columbia. These facilities are Crescent Gardens in South Surrey, Malaspina Gardens in Nanaimo, Carlton Gardens in Burnaby, Langley Gardens and Village Square in Langley, and Arranglen Gardens in Qualicum Beach.

The Company is strategically planning to strengthen its portfolio of properties through the development of new communities. The Company's ability to respond quickly to the changes and needs of the industry, combined with its well-thought-out and practical ideas in development, operational and marketing acumen had led the Company to a position of strength from which it meets the demands of today's vibrant seniors and the continuing need for high-quality long-term care facilities. In 2002, the Company achieved the three-year accreditation status (2002 – 2005) from the Canadian Council on Health Services Accreditation.

The overall business strategy of the Company is to provide both a flexible and wide range of services to its elderly clients, including independent living, congregate living, assisted living, and multi-level care. The Company introduced the concept of combining the operation of retirement communities with strata-titled residential developments, whereby clients are given the opportunity to purchase condominium units and acquire a package of services offered by the facility. The Company has implemented this "Aging in Place" concept at its developed long-term care facilities, and will continue to follow this model of operation in future. The Company's new developments "The Gardens at Qualicum Beach" and "The Residences at Village Square" will be further typical examples of this trend.

Revenue

Gross revenue for the fiscal year was $31.5 million, an increase of $0.9 million over the preceding year of $30.6 million. This increase in revenue includes the full year's operation of the Company's newest developed facility, Village Square in Langley.

Most of the units are fully occupied in the existing facilities except the Company's newest built facility "Village Square." However, the new facility was in operation with occupancy of more than 50% during the first week of its opening in October 2002. The facility is growing steadily and approaching full occupancy at the end of the fiscal year.

Following are the average occupancy rate for the existing facilities during the fiscal year ended March 31, 2004.

	Average rate
Crescent Gardens	98%
Langley Gardens	97%
Village Square	79%
Carlton Gardens	98%
Malaspina Gardens	99%
Arranglen Gardens	98%

Some small vacancy factor is due to resident turnover. The government subsidy programs reimburse facilities at 100% capacity for average capacity levels in excess of 97%.

Management's Discussion and Analysis

March 31, 2004

Operating Expenses

Operating expenses are the direct expenses related to the operation of the facilities including salaries and benefits, purchased services, supplies, administration, property taxes, strata fees, utilities, repair and maintenance, and marketing.

The salaries and benefits are approx. 75% of the total operating expenses. As at March 31, 2004, the Company has approx. 570 full time and part time employees attending to the management and daily operations of the Company's existing six facilities.

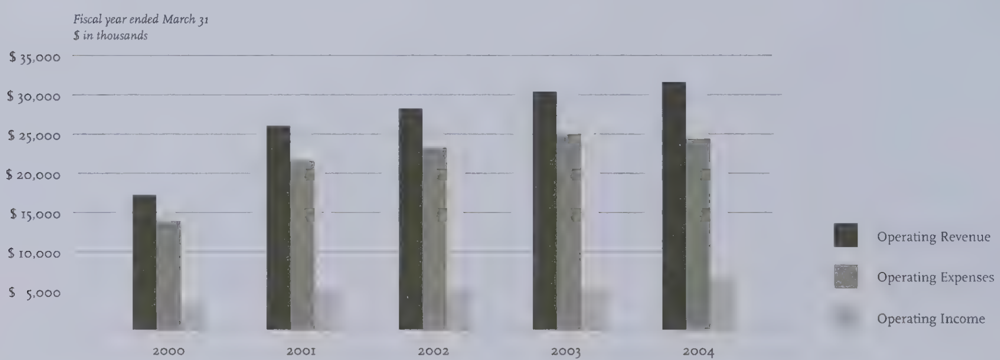
The Company is expecting a saving of labour costs through its innovative program to cover the increasing operating costs without compromising the Company's high-quality services.

Operating Income

An operating income of $7.0 million (2003 – $5.3 million) before fixed charges, interest and general administrative expenses was achieved after deducting operating expenses of $24.5 million from operating revenue of $31.5 million. This represents an increase of 32% in operating income over the preceding year.

Summary of Historic Operating Revenue, Operating Expenses, and Operating Income Before Fixed Charges, Interest and General Administrative Expenses for the Past Five Years

As shown in the chart below, the Company is achieving a gradual increase in operating revenue resulting from its expansion program.



The significant increase of operating revenue in 2001 includes the full year's operating revenue from Carlton Gardens (a facility acquired in February 2000) and the six months' operating revenue from Langley Gardens, since its commencement of operation in October 2000.

The increase of operating revenue in 2003 includes the revenue of $0.32 million (representing the Company's share – 50%) from Village Square, since its commencement of operation in October 2002.

The operating results in 2004 include the full year's operation of Village Square (the company's newest developed facility commenced operation in October 2002). In November 2003, the Company had contributed 50% of its interest in Arranglen Gardens as capital to the Qualicum Gardens Partnership. As a result, the Company's share in Arranglen Gardens has been reduced to 50% from November 2003 onwards.

The Company continues to review its existing operational and financial procedures and practices to ensure operating efficiencies and the best utilization of practice systems, which will lead to improvements of overall operating margins. The Company is anticipating additional capacity from its expansion program, in order to achieve greater fixed cost absorption as well as decrease in variable operating expenses on a per bed / suite basis.

General and Administrative Expenses

General and administrative expenses for the fiscal year are maintained at 4% of gross revenue as the preceding year. According to the Company's growth strategy, the Company expects that these expenses will be increased marginally as further properties are added to its portfolio, and that the percentage of expenses over gross revenue will be decreased as a result of the increase in gross revenue by adding new properties.

The ongoing administrative strategies applied at both head office and the facilities include the use of state-of-the-art technology and equipment, integrated management reporting, and management information system, which enables the Company to improve the effectiveness in the management of its operations.

Income Taxes

On April 1, 2000, the Company adopted the liability method of accounting for income taxes and applied the change on a retroactive basis without restatement of the prior year's financial statements. The effect of this change on the opening financial statements as at April 1, 2000 was increasing the opening deficit by $2.7 million, future income tax asset by $1.2 million, future income tax liability by $3.6 million, and decreasing the unamortized goodwill related to Malaspina Gardens by $0.25 million. The future income tax asset and future income tax liability at the end of the fiscal year are respectively $1.2 million and $2.3 million.

Financial Resources and Liquidity

During the year, the Company obtained a financing of $1.5 million through the issuance of unsecured convertible debentures at the interest rate of 7% per annum. The debentures are convertible at the holder's option into common shares of the Company at $2.50 per share at any time before the maturity date of March 4, 2009.

During the year, the Company committed to a CMHC insured take-out first mortgage of $9.2 million (the Company's proportionate share $4.6 million), by way of a fixed and floating charge debenture and mortgage over the assets of Village Square, and a cross collateral/cross default on the property of Langley Gardens. The mortgage is amortized over 25 years and repayable in monthly blended payments calculated at the interest rate of 5.62% on a semi-annual basis, not in advance. The Loan is due in July 2013.

During the year, the Company reduced the existing uncommitted demand non-revolving loan in respect of Village Square to $1 million (the Company's proportionate share $0.5 million). The terms and conditions of the loan were amended to refinance the commercial/retail property at Village Square.

During the year, the Company committed to a non-revolving loan up to $12.7 million (the Company's proportionate share $6.35 million), for the development of the property adjacent to Village Square in Langley B.C., to be known as "The Residences at Village Square." The loan is repayable upon demand, and unless otherwise demanded, the loan will be repaid in full from the sales of the residential condominium units of the project within 30 months from the initial advance of the loan. The loan interest is calculated at prime rate plus 0.90% payable monthly.

During the year, the Company entered into a contract with an arm's length purchaser to sell the property in Kelowna B.C. for $3.7 million subject to the purchaser being satisfied with the results of a project feasibility study and analysis, the soil condition and environmental status of the property, and the review of title including easements, encroachments and the permitted encumbrances. All these conditions were subsequently removed in November 2003. Completion of the sale of the property was March 31, 2004.

The Company believes that its existing working capital together with its consistent cash in-flow from operations, proceeds from sale of property, and other available sources of financing, will be sufficient for the Company's ongoing capital expenditures and working capital requirements.

Future Developments

The Gardens at Qualicum Beach

In November 2003, the Company entered into a partnership with The Mancal Group of Calgary on a 50/50 basis to undertake the development and operation of a new retirement community on the former Qualicum Beach Middle School site, to be known as "The Gardens at Qualicum Beach." The partners are CPAC (Arranglen Gardens) Inc., a subsidiary of the Company, and Mancal Lifestyles Inc., a subsidiary of Mancal Corporation. The Company assigned to the partnership its agreement to purchase the Qualicum Middle School site from the Qualicum School Board. The transaction was completed on January 16, 2004.

The Company has obtained the development permit from the Town of Qualicum Beach for the development of the property. The development is intended to be an Aging-in-Place Retirement Community, containing independent living condominiums, rental suites, assisted living and licensed care totalling 225 suites.

The Company's subsidiary, CPAC (Care) Management Inc., has been engaged by the partnership to provide development-consulting services. In addition, upon completion of construction, CPAC (Care) Management Inc. will be engaged by the partnership to manage the operation of the new retirement community.

The Residences at Village Square

Langley Gardens and Village Square provide seniors with the option of different retirement lifestyles following the Company's "Aging-in-Place" developmental and operational philosophy. They are the only multi-level housing of their kind in Walnut Grove, Langley.

There is a critical shortage of senior housing in the lower mainland of British Columbia, especially with the increasing number of seniors over the age of 75 seeking secure and comfortable retirement accommodation. The Company and Rieding Projects Ltd. have formed a Limited Partnership for the development of the Phase III project adjacent to Village Square in Walnut Grove, Langley B.C., known as "The Residences at Village Square", in which each has a 50% interest. Each party also has a 50% interest in CPAC (The Residences) Inc., the General Partner. The new development will include 93 residential units for seniors and 14,600 sq.ft. of commercial/retail units.

The Company's subsidiary, CPAC (Care) Management Inc., has been engaged by the limited partnership to provide development-consulting services.

Crescent Gardens, Phase II

On March 15, 2004, the Company made an offer to purchase a piece of land adjacent to Crescent Gardens in Surrey, B.C. for $850,000 subject to successful rezoning of the land and a certified development permit to develop the land, within 180 days after the execution of the Purchase Agreement. The closing date will be 30 days following the removal of the foregoing conditions precedent.

The Company is planning to develop the Crescent Gardens, Phase II project in Surrey, B.C. as an extension of the existing Crescent Garden Retirement Community.

Environmental Policy

The Company has an environmental policy in place, which is applicable to any acquisitions, constructed properties, and day-to-day operations. This policy has been implemented out of regard for the safety and well being of the properties' residents, as well as concern about maintaining the on-going value of the properties themselves.

Business Risks

Interest: The Company has been able to acquire or refinance properties at favorable interest rates, and where possible, has insured mortgages with CMHC, which will allow the Company to renew mortgages at very favorable rates during the amortization period of the original debt. In the few select cases of debt with high interest rates, the terms have been kept as short as possible.

Business: Like any similar organization, the Company faces competition for residents. To diminish this competition, the Company exhaustively studies demographic reports in order to acquire or develop properties in what the research deems to be the best possible geographic location. In addition, financial proformas are prepared in such a manner as to ensure that rents and building costs are synchronized in order to produce an appropriate rate of return on investment for each property.

Auditors' Report

To the Shareholders of CPAC (Care) Holdings Ltd.

We have audited the consolidated balance sheets of CPAC (Care) Holdings Ltd. as at March 31, 2004 and 2003 and the consolidated statements of operations, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles. As required by the British Columbia Company Act, we report that, in our opinion, these principles have been applied on a consistent basis, except for the change in accounting policy for stock-based compensation prescribed by the Canadian Institute of Chartered Accountants as disclosed in Note 2 (o).

Deloitte & Touche LLP

Chartered Accountants
Vancouver, British Columbia
April 30, 2004

Management's Responsibility for Financial Information

The information and representations in this annual report have been prepared by the management of the Company. The consolidated financial statements have been prepared in conformity with Canadian generally accepted accounting principles and, where appropriate, reflect management's best estimates and judgements. A system of internal accounting controls is maintained to provide reasonable assurance that financial information is accurate and reliable. The Company's independent auditors, who are appointed by the shareholders, conduct an audit in accordance with Canadian generally accepted auditing standards for the purpose of expressing their opinion on the consolidated financial statements. The Board of Directors' Audit Committee meets periodically with management to review accounting, internal accounting controls and financial reporting matters. The Consolidated Financial Statements have been approved by the Board of Directors for issuance to the shareholders.

Patrick Shum
Chief Financial Officer
April 30, 2004

Consolidated Balance Sheets

March 31, 2004 and 2003

	2004	2003
Assets		
Properties		
Revenue-producing Note 3	$ 49,160,555	$ 53,518,522
Under development Note 4	3,435,557	–
Held for future development Note 5	1,828,297	5,382,992
	54,424,409	58,901,514
Cash	4,718,754	2,507,095
Restricted cash	249,702	419,870
Deferred charges Note 6	581,227	469,213
Goodwill	342,095	342,095
Future income taxes Note 7	1,206,206	1,206,206
Other Note 8	3,349,407	952,073
	$ 64,871,800	$ 64,798,066
Liabilities		
Mortgages payable Note 9	$ 46,640,402	$ 46,001,427
Demand loans Note 10	2,137,349	6,387,055
Convertible debentures Note 11	4,972,935	3,512,563
Accounts payable and accrued liabilities	3,760,056	2,835,857
Capital lease obligations Note 12	147,595	207,439
Other accrued liabilities Note 13	1,130,676	1,045,599
Future income taxes Note 7	2,250,018	2,323,018
Deferred gain Note 14	867,376	–
	61,906,407	62,312,958
Commitments Note 15		
Shareholders' Equity		
Share capital Note 16	13,383,080	13,383,080
Equity component of convertible debentures Note 11	338,161	288,261
Contributed surplus Note 16 (b)	42,790	–
Deficit	(10,798,638)	(11,186,233)
	2,965,393	2,485,108
	$ 64,871,800	$ 64,798,066

See accompanying Notes to the Consolidated Financial Statements

Approved by the Directors

Don Ho, *director*

Joanne Yan, *director*

Consolidated Statements of Operations

Years ended March 31, 2004 and 2003

	2004	2003
Operating Revenues	**$ 31,468,426**	$ 30,553,950
Operating Expenses	**24,493,516**	25,256,252
Operating income before undernoted items	**6,974,910**	5,297,698
Amortization	**2,159,811**	2,507,074
Interest on long-term obligations	**3,541,848**	3,801,147
General and administrative expenses	**1,238,644**	1,221,145
Project consulting fees	**(77,603)**	(76,500)
Income from properties held for sale	**(504,385)**	(64,556)
	6,358,315	7,388,310
Income (loss) before income taxes	**616,595**	(2,090,612)
Recovery of (provision for) income taxes Note 7		
Current	**(302,000)**	(152,925)
Future	**73,000**	36,631
	(229,000)	(116,294)
Net income (loss)	**$ 387,595**	$ (2,206,906)
Income (loss) per common share – basic and diluted	**$ 0.02**	$ (0.09)
Weighted average number of shares	**24,297,455**	24,297,455

See accompanying Notes to the Consolidated Financial Statements

Consolidated Statements of Shareholders' Equity

Years ended March 31, 2004 and 2003

	Number of Shares	Share Capital	Equity Component of Convertible Debentures	Contributed Surplus	Deficit	Total
Balance at March 31, 2000	24,337,955	$ 13,405,388	$ 135,616	$ –	$ (5,325,384)	$ 8,215,620
Net loss for the year	–	–	–	–	(1,441,703)	(1,441,703)
Issuance of convertible debentures Note 11	–	–	34,062	–	–	34,062
Redemption of convertible debentures Note 11	–	–	(135,616)	–	–	(135,616)
Redemption of shares	(16,500)	(9,087)	–	–	(9,275)	(18,362)
Balance at March 31, 2001	24,321,455	13,396,301	34,062	–	(6,776,362)	6,654,001
Net loss for the year	–	–	–	–	(2,200,821)	(2,200,821)
Issuance of convertible debentures Note 11	–	–	99,784	–	–	99,784
Redemption of shares	(24,000)	(13,221)	–	–	(2,144)	(15,365)
Balance at March 31, 2002	24,297,455	13,383,080	133,846	–	(8,979,327)	4,537,599
Net loss for the year	–	–	–	–	(2,206,906)	(2,206,906)
Issuance of convertible debentures Note 11	–	–	154,415	–	–	154,415
Balance at March 31, 2003	24,297,455	13,383,080	288,261	–	(11,186,233)	2,485,108
Net income for the year	–	–	–	–	387,595	387,595
Issuance of convertible debentures Note 11	–	–	49,900	–	–	49,900
Contributed surplus	–	–	–	42,790	–	42,790
Balance at March 31, 2004	24,297,455	$ 13,383,080	$ 338,161	$ 42,790	$ (10,798,638)	$ 2,965,393

See accompanying Notes to the Consolidated Financial Statements

Consolidated Statements of Cash Flows

Years ended March 31, 2004 and 2003

	2004	2003
Operating Activities		
Net income (loss)	$ 387,595	$ (2,206,906)
Items not affecting cash		
Amortization	2,159,811	2,507,074
Stock-based compensation Note 16	42,790	–
Future income taxes	(73,000)	(36,631)
	2,517,196	263,537
Changes in non-cash operating accounts		
Properties held for sale	2,900,000	83,214
Accounts and amount receivable	(2,629,332)	(9,936)
Supplies inventory	(12,785)	13,535
Prepaid expenses and deposits	123,862	30,838
Accounts payable and accrued liabilities	769,700	(288,719)
Other accrued liabilities	239,549	(116,389)
	3,908,190	(23,920)
Investing Activities		
Properties under development	(2,918,083)	–
Revenue-producing properties	(311,049)	(3,856,304)
Properties held for future development	(305)	27,886
Prepaid project costs	(26,152)	(167,602)
Deferred pre-operating costs	–	(40,962)
Proceeds from transfer of properties to joint venture	754,416	–
	(2,501,173)	(4,036,982)
Financing Activities		
Net proceeds on convertible debentures	1,500,000	1,600,000
Proceeds from demand loans	345,619	–
Repayment of demand construction loan	(4,595,325)	–
Mortgage proceeds	4,595,325	3,968,731
Mortgage repayments	(837,736)	(731,035)
Repayment of capital lease obligations	(59,844)	(424,344)
Restricted cash	170,168	(90,316)
Deferred financing costs	(313,565)	(85,325)
	804,642	4,237,711
Increase in cash	2,211,659	176,809
Cash, beginning of year	2,507,095	2,330,286
Cash, end of year	$ 4,718,754	$ 2,507,095
Supplemental Cash Flow Information		
Interest paid	$ 3,378,922	$ 3,507,536
Income taxes paid	$ 153,243	$ 113,070

See accompanying Notes to the Consolidated Financial Statements

Notes to the Consolidated Financial Statements

Years ended March 31, 2004 and 2003

1. Operations

CPAC (Care) Holdings Ltd. (the "Company") was incorporated on May 24, 1995 under the Canada Business Corporation Act. Its current business is the development and operation of retirement care facilities which include Crescent Gardens, Malaspina Gardens, Arranglen Gardens, Carlton Gardens, Langley Gardens, Village Square, Residences at Village Square and Qualicum Gardens.

2. Summary of Significant Accounting Policies

a) Principles of consolidation

These consolidated financial statements include:

(i) the accounts of the Company and its wholly-owned subsidiaries:

CPAC (Crescent Gardens) Inc.;
CPAC (Care) Management Inc.;
CPAC (Malaspina Gardens) Inc.;
CPAC (Arranglen Gardens) Inc.;
CPAC (Langley Gardens) Holdings Inc.;
CPAC (Lakeview Gardens) Inc.;
CPAC (Carlton Gardens) Inc.;
CPAC (Fairway Gardens) Inc.; and
Senior Lifestyles Services Inc.

(ii) the Company's 50% interest in all of its joint ventures, which are accounted for on the proportionate consolidation basis. Under this method, the consolidated financial statements include the Company's proportionate share of all assets, liabilities, revenues and expenses. Additional information regarding the Company's interests in joint ventures is presented in Note 14:

CPAC (Langley Gardens) Inc.;
CPAC (Langley Gardens) Limited Partnership ("Langley Joint Venture");
CPAC (The Residences) Inc.;
CPAC (The Residences) Limited Partnership ("Residences Joint Venture");
Qualicum Gardens Inc.; and
Qualicum Gardens Partnership ("Qualicum Joint Venture").

All significant intercompany transactions have been eliminated.

b) Revenue-producing properties

Revenue-producing properties are stated at the lower of cost less accumulated depreciation and estimated net recoverable amount. Amortization of buildings is provided on a straight-line basis at an annual rate of 2% to 5%. Amortization of other assets is provided on a declining-balance basis at the following annual rates:

Furniture and fixtures	20%
Other	20% – 30%

c) Properties under development and held for future development

Properties under development and held for future development are carried at the lower of capitalized cost and net recoverable amount. Cost includes the cost of land, construction costs, interest and other carrying costs, and other direct costs associated with the development.

d) Impairment of properties and other long-lived assets

Properties and other long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value. No impairment loss was recognized during the year.

e) Restricted cash

Restricted cash comprises cash pledged as security for demand loans, and amounts supporting letters of credit.

f) Deferred pre-operating costs
Deferred pre-operating costs of a constructed facility represent costs incurred subsequent to completion of construction but prior to full operation of the facility, and are amortized over five years on a straight-line basis.

g) Deferred financing costs
Costs directly related to obtaining financing are deferred and amortized over the term of the related debt.

h) Goodwill
Goodwill represents the difference between the purchase price and the fair value of the identifiable net assets of an acquired business. In accordance with Canadian Institute of Chartered Accountants' ("CICA") Handbook requirements on "Business Combinations" and "Goodwill and Other Intangible Assets", goodwill and other intangible assets with indefinite lives are no longer amortized, but are tested for impairment, at least annually. No impairment of goodwill was recognized during the years ended March 31, 2004 and 2003.

i) Supplies inventory
Inventory consists of food and medical supplies, which are recorded at the lower of cost and replacement cost.

j) Convertible debentures
Upon issuance, convertible debentures are classified into their financial liability and equity components. The financial liability component represents the present value of future principal and interest payments. The equity component represents the value ascribed to the holders' option to convert the principal balance into common shares. The financial liability is accreted to the amount due at maturity by way of a charge to operations.

k) Employee future benefits
The Company provides certain pension benefits to eligible participants upon retirement. These benefits are provided on a defined contribution basis. The pension benefits expense recognized for the year ended March 31, 2004 is $289,755 (2003 – $261,139). Employees belonging to the Hospital Employees Union are entitled to severance pay and a payout of 40% of accumulated sick pay benefits after 10 years of service under certain conditions of employment termination or on retirement. The Company accrues its obligations for these post-employment benefits and the related costs. The cost of post-employment benefits is actuarially determined using the projected accrued benefit cost method using management's assumptions. Any resulting net actuarial gain (loss) is recognized in operations in the current period.

l) Revenue recognition
Revenue from strata unit sales is recognized when the purchaser is entitled to possession and closing funds have been received.

Operating revenues comprise rentals and care services, and are recognized on a monthly basis.

Operating revenue for a constructed facility is recognized when the facility is operational and a satisfactory level of occupancy has been attained.

m) Income taxes
The Company accounts for income taxes under the liability method. Under this method, temporary differences arising from the difference between the tax basis of an asset or a liability and its carrying amount on the balance sheet are used to calculate future income tax assets or liabilities. Future income tax assets or liabilities are calculated using tax rates anticipated to be in effect when the temporary differences are expected to be realized or settled. A valuation allowance is provided to the extent that it is more likely than not that future income tax assets will not be realized. The effect of a change in income tax rates on future income tax assets and liabilities is recognized in income in the period that the change occurs.

n) Income per share
Basic income per share is calculated by dividing the net income (loss) by the weighted average number of common shares outstanding during the year. Diluted earnings per share is calculated to show the dilutive effect of an outstanding stock option and convertible debt being exercised.

o) Stock-based compensation plan
The Company has a stock-based compensation plan where options to purchase common shares are issued to directors, officers and employees.

Notes to the Consolidated Financial Statements

Effective April 1, 2002, the Company adopted the new CICA Section 3870, Stock-Based Compensation and Other Stock-Based Payments. As permitted under the new standard, the Company applied the intrinsic value based method of accounting prospectively for stock-based compensation awards granted to employees after April 1, 2002. Accordingly, no compensation cost has been recognized for its fixed stock option plan. However, pro forma information regarding net income is required as if the Company had accounted for its employee stock option granted after March 31, 2002 under the fair value method. The fair value for these options is estimated at the grant date using a Black-Scholes option pricing model with assumptions for: weighted-average risk free interest rates; dividend yields; weighted-average volatility factors of the expected market price of the Company's common shares; and a weighted-average expected life of the options. For purpose of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting periods, which is one year for the Company.

Effective February 1, 2004, Section 3870 requires the use of the fair value method for all types of stock-based compensation plans for employees. During the year ended March 31, 2004, the Company adopted the fair value method to measure compensation cost relating to its stock option plan. This change was applied prospectively for options granted after April 1, 2003. The counterpart is recorded as contributed surplus. Any consideration paid by employees on the exercise of options is credited to share capital.

p) Use of estimates
The preparation of the consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant estimates include the recoverability of accounts receivable, the expected economic lives of and the estimated future operating results and net cash flow from properties, and accrued liabilities.

q) Comparative figures
Certain comparative figures have been reclassified to conform with the presentation adopted in the current year.

3. Revenue-Producing Properties

	2004			2003
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	**$ 10,146,690**	**$ –**	**$ 10,146,690**	$ 10,406,446
Buildings	**44,728,757**	**7,191,704**	**37,537,053**	41,221,838
Furniture and fixtures	**1,702,939**	**1,126,820**	**576,119**	808,011
Other	**2,530,340**	**1,629,647**	**900,693**	1,082,227
	$ 59,108,726	**$ 9,948,171**	**$ 49,160,555**	$ 53,518,522

During the year, the Company acquired a total of $68,289 (2003 – $Nil) capital leases. Included in revenue-producing properties at March 31, 2004 are assets under capitalized leases with a net book value of $175,359 (2003 – $262,789).

4. Properties Under Development

	2004	2003
Land	**$ 1,535,210**	$ –
Construction and development costs	**1,890,427**	–
Finance charges	**9,920**	–
	$ 3,435,557	$ –

5. Properties Held for Future Development

	2004	2003
Land	**$ 1,437,586**	$ 4,992,586
Construction and development costs	**362,861**	362,556
Property taxes	**27,850**	27,850
	$ 1,828,297	$ 5,382,992

Notes to the Consolidated Financial Statements

Years ended March 31, 2004 and 2003

6. Deferred Charges

			2004	2003
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Deferred pre-operating costs	**$ 177,417**	**$ 107,339**	**$ 70,078**	$ 105,562
Deferred financing costs	**1,481,738**	**970,589**	**511,149**	363,651
	$ 1,659,155	**$ 1,077,928**	**$ 581,227**	$ 469,213

7. Income Taxes

The components of the future income tax asset and liability are as follows:

	2004	2003
Future tax asset		
Non-capital losses (net of valuation allowance of $1,202,000; 2003 – $862,000)	**$ 1,206,206**	$ 1,206,206
Future tax liability		
Properties	**2,250,018**	2,323,018

Income tax expense for the years represents income taxes at an effective rate which differs from combined statutory rates of tax as follows:

	2004	2003
Provision (recovery) of income taxes at statutory rates	**35.6%**	(45.0%)
Large corporation tax	**1.8%**	3.8%
Losses of subsidiaries not recognized	**– %**	45.9%
Other	**(0.3%)**	0.9%
	37.1%	5.6%

8. Other

	2004	2003
Accounts receivable	**$ 666,389**	$ 337,057
Amount receivable from sale of land	**2,300,000**	–
Supplies inventory	**49,629**	36,844
Prepaid project costs	**91,915**	212,836
Prepaid expenses and deposits	**241,474**	365,336
	$ 3,349,407	$ 952,073

9. Mortgages Payable

Mortgages payable bearing interest rates ranging from 4.5% to 12.5% (weighted-average rate of 7.2%), are secured by first and second charges on specific facilities and the principal amounts of which are repayable as follows:

	Regular Principal Payments	Principal Due on Maturity	Total
2005	$ 1,153,063	$ 8,524,690	$ 9,677,753
2006	602,001	8,008,539	8,610,540
2007	495,767	–	495,767
2008	525,010	150,951	675,961
2009	313,986	15,873,236	16,187,222
Thereafter	789,497	10,203,662	10,993,159
	$ 3,879,324	$ 42,761,078	$ 46,640,402

Notes to the Consolidated Financial Statements

Years ended March 31, 2004 and 2003

10. Demand Loans

The Company has the following demand loan facilities:

	2004	2003
Non-revolving loan bearing interest at prime plus 1% secured by a piece of bare land in Kelowna, B.C. Cash of $111,008 has been pledged as security for the loan. In March 2004, the land was sold for $3,700,000 and the loan was fully repaid subsequent to year end.	**$ 1,500,000**	$ 1,500,000
Loan bearing interest at prime plus 1% secured by the commercial properties at Village Square. Cash of $50,313 (the Company's proportionate share) has been pledged as security for the loan.	**387,057**	–
Non-revolving construction loan up to $6,350,000, representing the Company's proportionate share for the development of the Residences at Village Square bearing interest at bank's prime rate plus 0.9% secured by the Residences at Village Square.	**250,292**	–
Non-revolving construction loan up to $10,000,000. The construction loan was paid in full by a Canadian Mortgage Housing Corporation insured take-out first mortgage during the fiscal year.	**–**	4,887,055
	$ 2,137,349	$ 6,387,055

11. Convertible Debentures

On November 15, 2000, the Company obtained financing of $1,027,368 through the issuance of unsecured convertible debentures which bear interest at 8.5%, calculated and paid quarterly. The debentures mature on November 15, 2005 but are convertible at the holder's option into common shares any time before maturity at a price of $2.15.

During the year ended March 31, 2002, the Company obtained financing of $1,200,000 through the issuance of unsecured convertible debentures which bear interest at 8.5%, calculated and paid quarterly. The debentures mature on October 3, 2006 but are convertible at the holder's option into common shares any time before maturity at a price of $2.15.

During the year ended March 31, 2003, the Company obtained financing of $1,600,000 through the issuance of unsecured convertible debentures which bear interest at 8%, calculated and paid quarterly. Debentures totalling $1,400,000 mature on November 30, 2010, and the remaining $200,000 mature on January 31, 2011. The debentures are convertible at the holder's option into common shares any time before maturity at a price of $2.15 per share.

During the year ended March 31, 2004, the Company obtained financing of $1,500,000 through the issuance of unsecured convertible debentures which bear interest at 7%, calculated and paid quarterly. The debentures mature on March 4, 2009. The debentures are convertible at the holder's option into common shares any time before maturity at a price of $2.50.

	2004	2003
Face value	**$ 5,327,368**	$ 3,827,368
Unamortized discount	**(16,272)**	(26,544)
	5,311,096	3,800,824
Value of equity component	**(338,161)**	(288,261)
	$ 4,972,935	$ 3,512,563

12. Capital Lease Obligations

Minimum payments on the capital lease obligations are as follows:

2005	$ 97,574
2006	32,061
2007	27,952
	157,587
Imputed interest of approximately 7%	(9,992)
	$ 147,595

Interest in 2004 on the capital lease obligations amounted to $16,108 (2003 – $37,759).

Notes to the Consolidated Financial Statements

Years ended March 31, 2004 and 2003

13. Other Accrued Liabilities

As at March 31, 2004, other accrued liabilities include $1,062,671 (2003 – $1,016,771) of accrued benefits obligation related to employee future benefits.

The following employee future benefits information is related to sick leave and severance:

	2004	2003
Expense (recovery)		
Current service cost and settlement gain	$ 71,250	$ (184,529)
Interest cost	69,450	83,500
Net expense (recovery)	$ 140,700	$ (101,029)
Accrued benefit liability, beginning of year	$ 1,016,771	$ 1,117,800
Expense (recovery) for the year	140,700	(101,029)
Transfer to joint venture	(94,800)	–
Accrued benefit liability, end of year	$ 1,062,671	$ 1,016,771

Significant actuarial assumptions used in determining the Company's accrued benefit obligation are as follows:

Discount rate	6.0%
Rate of compensation increase	3.5%
Average remaining service life	9 years

14. Interests in Joint Ventures

The Company, along with its partners, is jointly liable for all obligations of the joint ventures.

The Company's share in the assets, liabilities, revenues, expenses and cash flows of joint ventures is summarized as follows:

	2004	2003
Balance sheet		
Revenue producing properties	$ 17,751,584	$ 14,507,000
Property under development	3,436,000	–
Property held for future development	655,000	–
Cash and restricted cash	514,764	673,513
Other assets	493,748	427,495
Due from related parties	1,613,891	–
Total assets	24,464,987	15,608,008
Mortgages payable	15,359,339	12,285,988
Demand construction loan	250,292	–
Accounts payable and accrued liabilities	1,224,515	497,894
Total liabilities	16,834,146	12,783,882
Partners' equity in joint ventures	7,630,841	2,824,126
Total liabilities and partners' equity	$ 24,464,987	$ 15,608,008
Statement of operations		
Revenues	$ 4,623,920	$ 3,943,498
Expenses	(4,424,986)	(3,946,957)
Income from sale of property	–	64,555
Interest and miscellaneous	21,616	4,830
Net income	$ 220,550	$ 65,926
Statement of cash flows		
Operating activities	$ 838,253	$ 799,084
Financing activities	(997,777)	(3,303,396)
Investing activities	37,208	(3,896,328)

Notes to the Consolidated Financial Statements

Years ended March 31, 2004 and 2003

15. Commitments

a) Construction projects

i) Residences at Village Square

During the year, the Residences Joint Venture has committed to a construction project (the Residences at Village Square) with estimated costs of $16.9 million.As at March 31, 2004, approximately $5.0 million in costs have been incurred, of which the Company is responsible for its 50% proportionate share.

The Company and its subsidiary have letters of credit facilities with a total limit of $995,000. As at March 31, 2004, $558,675 of letters of credit has been issued to the Township of Langley and a home warranty provider as part of its obligation to construct the Residences at Village Square.

ii) Qualicum Gardens

During the year, the Qualicum Joint Venture has committed to a construction project (Qualicum Gardens) with estimated costs of $27.7 million. As at March 31, 2004, approximately $1.9 million in costs have been incurred, of which the Company is responsible for its 50% proportionate share.

b) Purchase of land

On March 15, 2004, the Company entered into a contract to purchase a piece of land adjacent to Crescent Gardens in Surrey, British Columbia for $850,000 subject to satisfactory rezoning and development approval.

c) Leases

The Company has a five-year lease agreement for office premises at a base rent of $43,200 per annum on a triple net basis, with City Group Holdings Ltd., a company controlled by the president and chief executive officer. The lease expires on December 31, 2007.

16. Share Capital

a) Issued and outstanding

The Company's authorized capital consists of an unlimited number of common shares and Class A preferred shares, both without par value. As at March 31, 2004, the Company has issued and outstanding 24,297,455 common shares (2003 – 24,297,455).

The Company has 500,000 (2003 - 1,000,000) common shares in escrow, to be released to four directors upon fulfillment of certain prescribed cash flow requirements prior to June 15, 2008.

b) Stock options

The Company has a stock option plan for employees and directors, the details of which are as follows:

	2004		2003	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding, beginning of year	**1,340,000**	**$ 0.70**	1,425,000	$ 1.26
Granted	**91,000**	**0.60**	750,000	0.50
Expired	**(114,000)**	**1.50**	(835,000)	1.47
Outstanding and exercisable at end of year	**1,317,000**	**$ 0.62**	1,340,000	$ 0.70

On September 1, 2003, the Company granted options for 91,000 shares to employees at an exercise price of $0.60 per share expiring September 1, 2008. During the year ended March 31, 2004, compensation expense in the amount of $42,790 has been recorded, with the counterpart credited to contributed surplus.

Notes to the Consolidated Financial Statements

b) Stock options

The following table summarizes information about the stock options outstanding at March 31, 2004:

Exercise Prices	Options outstanding and exercisable: Number Outstanding and Exercisable	Weighted-Average Remaining Contractual Life (In Years)	Weighted-Average Exercise Price
$ 0.50	750,000	4.00	$ 0.50
0.60	451,000	3.25	0.60
1.50	116,000	1.05	1.50
$ 0.50 - $1.50	1,317,000	3.48	$ 0.62

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model with weighted average assumptions for grants as follows:

	2004	2003
Risk free interest rate	**3.94%**	4.40%
Expected life of options in years	**5 years**	5 years
Expected volatility	**159%**	98%
Dividend per share	**$0.00**	$0.00

Had compensation cost been recorded retroactively using the fair value method for all awards granted after April 1, 2002, the Company's pro forma net loss and basic and diluted loss per share for the year ended March 31, 2003 would have been as follows:

Net loss	
Reported	$ (2,206,906)
Pro forma	(2,255,576)
Basic loss per share	
Reported and pro forma	(0.09)

17. Related Party Transactions

During the year, related party transactions with companies controlled by shareholders, some of whom are also officers and/or directors of the Company, were as follows:

	2004	2003
Capitalized to property		
Consulting fees	**$ 30,000**	$ 30,000
Expensed		
Management services	**121,505**	159,600
Rent	**43,200**	43,200

During the year, the Company incurred legal fees approximating $88,745 (2003 – $53,000) with a legal firm in which a director is a partner.

These transactions were in the normal course of operations and under normal trade terms, and are recorded at amounts as agreed by the related parties.

18. Financial Instruments

a) Credit risk and concentration of revenue

The Company's exposure to credit risks is indicated by the carrying amounts of its accounts receivable.

During year ended March 31, 2004, the Company received approximately 79% (2003 – 72%) of its operating revenues for the five facilities from grants provided by the Provincial Ministry of Health. The remainder is derived from private pay residents.

In order to qualify for provincial government funding, the Company must meet building guidelines and standards of service which comply with the licensing requirements under the Community Care Act. The operating revenues which are funded by the Ministry of Health are based on care requirements and financial means assessment for each resident. Licensing and grants are subject to review annually.

b) Interest rate risk

All of the Company's financial assets and liabilities are non-interest bearing except cash which earns a floating interest rate. Mortgages payable, demand loans, convertible debentures and capital lease obligations bear interest as described in Notes 9, 10, 11 and 12, respectively.

c) Fair values of financial assets and liabilities

The carrying values of cash, accounts receivable, and accounts payable and accrued liabilities approximate their fair values, given the short term to maturity of these instruments.

Management has determined that the carrying values of the debt on properties, convertible debentures and capital lease obligations approximate their fair value, based on comparison with similar instruments in the marketplace.

Corporate Information

Corporate Offices

1147 Homer Street
Vancouver, British Columbia
Canada V6B 5T5
Telephone 604 688 2220
Facsimile 604 681 4056
Email info@cpac-care.com
www.cpac-care.com

Board of Directors and Officers

Don Ho
Director, Member of the Audit Committee, President and Chief Executive Officer

Mao Jung Hong
Director and Chairman of the Board

Isabella Ho
Director, Secretary and Executive Vice President

Joanne Yan
Director and Member of the Audit Committee

Martin Douglas Howard
Director and Member of the Audit Committee

Patrick Shum
Chief Financial Officer

CPAC (Care) Management Inc.

Don Ho
President and Chief Executive Officer

Isabella Ho
Executive Vice President

Patrick Shum
Vice President Finance and Chief Financial Officer

Amanda List
Vice President Leadership and Organization Development

Leon Joyal
Vice President Operations

Linda Prout
Vice President Marketing

Solicitors

Clark, Wilson
Suite 800, 885 West Georgia Street
Vancouver, British Columbia

Banks

HSBC Bank Canada & TD Bank

Register and Transfer Agent

Pacific Corporate Trust Company
10th Floor, 625 Howe Street
Vancouver, British Columbia

Stock Exchange

CPK.V – TSXV

Auditor

Deloitte & Touche LLP
Suite 2800, 1055 Dunsmuir Street
Vancouver, British Columbia

Notice of Annual Meeting

The annual meeting of shareholders will be held at:
Suite 800, 885 West Georgia Street
Vancouver, British Columbia
Tuesday, August 31, 2004 at 2:00pm

CPAC (Care) Holdings Ltd.
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Vancouver, British Columbia
Canada V6B 5T5

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